

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4987-01
Bill No.: SB 911
Subject: Business and Commerce; Economic Development; Taxation and Revenue; Tax Credits
Type: Original
Date: February 16, 2010

Bill Summary: This proposal authorizes the issuance of tax credits for Show-me Fund Projects under the Quality Jobs Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(\$63,561)	(\$71,751)	(\$73,903)
Total Estimated Net Effect on General Revenue Fund	(\$63,561)	(\$71,751)	(\$73,903)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 FTE

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue** as well as the **Department of Insurance, Financial Institutions and Professional Registration** each assume the proposal would not fiscally impact their respective agencies.

Officials from the **Department of Economic Development (DED)** state the proposed legislation creates a new tax credit program, the Show-Me Fund Projects tax credit, which is a \$60 million per calendar year program under the Missouri Quality Jobs Act. The credit appears to be discretionary and refundable based on the total amount of projected withholding taxes of new jobs at the project facility over a period not to exceed twelve years. In addition, the proposed legislation revises the caps of the MO Quality Jobs and BUILD program to not exceed \$105 million.

DED's Division of Business and Community Services anticipates the need for one additional FTE to ensure compliance and perform the auditing functions required by the proposed legislation. This FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the project plan applications to make sure they meet the criteria of the program and conducting random audits to ensure compliance with the program. The related costs for these FTE include one-time expenditures for systems furniture, side chairs, file cabinets, calculators and telephones and recurring costs for office supplies, computers, professional development and travel. DED estimates the cost for this additional FTE to total roughly \$72,000 per year.

Oversight assumes DED's estimate of expense and equipment cost for the new FTE could be overstated. If DED is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2011 could be reduced by roughly \$6,000.

Officials from the **Office of Administration - Budget and Planning (BAP)** state this proposal creates a new type of Missouri Quality Jobs (MQJ) project known as Show-Me Fund Projects. These include:

- "High impact" projects that invest \$10M in addition to creating 100 new jobs.
- "Technology business" projects that invest \$2M in addition to creating 10 new jobs.
- "Small and Expanding Business" projects that invest \$100k in addition to creating 20 new rural or 40 new urban jobs.

ASSUMPTION (continued)

Qualifying companies may receive refundable tax credits equal to the projected amount of income tax withholdings for new employees 12 years, or 5 years for Small and Expanding Businesses. If the company is unable to meet the necessary Show-Me Fund financing requirements, DED may still issue Show-Me Fund credits, but they must be repaid to General Revenue with terms and interest rates determined by DED. DED may waive the repayment requirement if the qualified company would locate the project in another state "but for" the Show-Me Fund Tax Credits.

There is an annual cap of \$60M for Show-Me Fund projects, which may not concurrently receive other MQJ or BUILD incentives. Currently, no more than \$80M in MQJ credits or \$25M in BUILD tax credits may be issued annually. This proposal modifies these limits to an aggregate cap of \$105M for both programs. DED may also issue BUILD credits as Show-Me Fund Tax Credits so long as the \$25M BUILD cap is not exceeded. In the event that Show-Me Fund authorizations do not exceed \$60M, then regular MQJ authorizations may total up to \$80M annually.

This proposal will increase the aggregate issuance of MQJ and BUILD credits, which will increase redemptions. DED had projected \$42M in FY11 redemptions for these two programs, with the amount of MQJ redemptions increasing each year. DED may have an estimate of increased credit redemptions as a result of this program.

This proposal may decrease general and total state revenues \$63M (\$105M aggregate cap minus the \$42M in projected redemptions). This proposal encourages other economic activity, but BAP does not have data to estimate the induced revenues. DED maintains that the economic benefits of the jobs created under MQJ offset any incentives issued.

This proposal combines the annual tax credit issuance limits of the Missouri Quality Jobs program (currently \$80 million) and the Build program (currently \$25 million) into a new combined annual limit of \$105 million. The annual tax credit issuances for the BUILD program for the last three years has been \$7.0 million in FY 2007, \$7.5 million in FY 2008 and \$5.6 million in FY 2009. **Oversight** assumes this proposal could result in additional credits being issued under the new combined annual limit, greater than what would have been issued separately under each program. However, within fiscal notes from previous year, Oversight has already reflected the potential loss of income to the General Revenue Fund for each program of up to the annual limits. Therefore, for purposes of this fiscal note, Oversight will reflect a potential shift of tax credits from the BUILD program to the Missouri Quality Jobs program of \$17 million (\$25 million annual limit for BUILD less FY 2010 estimated issuances of \$8 million).

ASSUMPTION (continued)

Changes to the Quality Jobs program within the bill may also increase the utilization of the program, and consequently increase the amount of tax credits used by Missouri employers. This may result in a reduction in Total State Revenues. However, as previously stated, Oversight has already reflected a potential loss of income resulting from the Quality Jobs program of up to \$80 million annually.

Oversight assumes the additional tax credits issued as a result of the changes in this proposal could create some positive benefits for the state. However, Oversight considers those to be indirect benefits and has not reflected them in the fiscal note.

This proposal could reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
<u>Savings</u> - Combining of BUILD and Quality Jobs annual aggregate limits - amount of tax credits anticipated under the \$25 million annual limit for BUILD	\$17,000,000	\$17,000,000	\$17,000,000
<u>Loss</u> - Additional credits from the BUILD program that will be available for use under the Quality Jobs Program	(\$17,000,000)	(\$17,000,000)	(\$17,000,000)
<u>Costs - DED</u>			
Personal Service (1 FTE)	(\$35,803)	(\$44,252)	(\$45,580)
Fringe Benefits	(\$18,775)	(\$23,206)	(\$23,902)
Expense and Equipment	(\$8,983)	(\$4,293)	(\$4,421)
<u>Total Costs - DED</u>	<u>(\$63,561)</u>	<u>(\$71,751)</u>	<u>(\$73,903)</u>
FTE Change - DED	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(\$63,561)</u>	<u>(\$71,751)</u>	<u>(\$73,903)</u>
Estimated Net FTE Change for General Revenue	1 FTE	1 FTE	1 FTE

FISCAL IMPACT - Local Government

FY 2011
(10 Mo.)

FY 2012

FY 2013

\$0

\$0

\$0

FISCAL IMPACT - Small Business

Small businesses that qualify for the new program could be positively impacted.

FISCAL DESCRIPTION

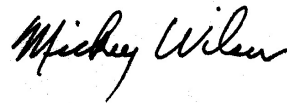
This act creates a new type of project under the Quality Jobs Act known as show-me fund projects. Show-me fund project benefits will be available for projects which qualify as small and expanding business, high impact, or technology business projects under the Quality Jobs Act and meet certain additional job creation and capital investment requirements. In determining eligibility for show-me fund benefits, the act requires the director of the Department of Economic Development to consider factors including the creditworthiness of the company, proposed wages for employees of the company, growth potential of the company, net economic benefit to the state, and local incentives provided to the project. If the department approves a company for show-me fund benefits and enters into a contract setting out performance requirements for the receipt of benefits, the company may receive refundable tax credits equal to the amount of income tax withholdings for new employees of such company over a period of years ranging between five and twelve years depending upon the type of project. The act contains provisions allowing for a recapture of tax credits in the event a company should default or fail to comply with performance requirements set by the department. No more than sixty million dollars in tax credits may be issued annually for show-me fund projects. Under current law, no more than eighty million dollars in quality jobs tax credits or more than twenty-five million dollars in BUILD tax credits may be issued annually. The act prohibits the issuance of more than a total of one hundred five million dollars in tax credits under the quality jobs and BUILD programs. The director of the Department of Economic Development is authorized to allocate BUILD tax credits for issuance as show-me fund tax credits provided that such allocation does not exceed statutory limits. The act prohibits companies from receiving show-me fund credits in conjunction with BUILD tax credits or other benefits available under the Quality Jobs Act for other types of projects.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

RS:LR:OD (12/02)

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Department of Insurance, Financial Institutions and Professional Registration
Office of Administration - Budget and Planning

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
February 16, 2010